

International Financial Reporting Standard

**Covid-19-Related Rent Concessions beyond 30 June
2021**

March 2021

BASIS FOR CONCLUSIONS – AMENDMENTS

[IFRS 16]

[Related to AASB 2021-3]

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Amendment to the Basis for Conclusions on IFRS 16 *Leases*

Paragraph BC205D is amended. Paragraphs BC205H–BC205J and their related heading are added. New text is underlined and deleted text is struck through.

Measurement: lessee (paragraphs 23–46B)

...

Lease modifications (paragraphs 44–46B)

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Covid-19-related rent concessions

...

BC205D The Board considered the risk of the practical expedient being applied too broadly, which could result in unintended consequences. The Board therefore limited the scope of the practical expedient so that it applies only to rent concessions that occur as a direct consequence of the covid-19 pandemic and:

- (a) result in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change. The Board was of the view that a rent concession that increases total payments for the lease should not be considered a direct consequence of the covid-19 pandemic, except to the extent the increase reflects only the time value of money.
- (b) reduce only lease payments originally due on or before 30 June ~~2022~~2021.¹ The Board noted that a related increase in lease payments that extends beyond 30 June ~~2022~~2021 would not prevent a rent concession from meeting this condition. In contrast, if reductions in lease payments extend beyond 30 June ~~2022~~2021, the rent concession in its entirety would not be within the scope of the practical expedient. In developing this condition, the Board observed that the economic effects of the covid-19 pandemic could continue for some time. If the practical expedient were not limited to a particular time frame, a lessee could conclude that many future changes in lease payments would be a consequence of the covid-19 pandemic. Limiting the practical expedient to rent concessions that reduce only lease payments originally due on or before 30 June ~~2022~~2021 provides relief to lessees when they are expected to need it most, while being responsive to concerns from users of financial statements about comparability if lessees were to apply the practical expedient beyond when it is needed. The Board also expected the condition in paragraph 46B(b) to be easy to apply, and to help lessees in identifying

¹ In March 2021 the Board issued *Covid-19-Related Rent Concessions beyond 30 June 2021*, which amended the date in paragraph 46B(b) of IFRS 16 from 30 June 2021 to 30 June 2022 (see paragraphs BC205H–BC205J).

rent concessions occurring as a direct consequence of the covid-19 pandemic.

- (c) introduce no substantive change to other terms and conditions of the lease, considering both qualitative and quantitative factors. Consequently, if a modification to a lease incorporates other substantive changes—beyond a rent concession occurring as a direct consequence of the covid-19 pandemic—the modification in its entirety does not qualify for the practical expedient. The Board noted that, for example, a three-month rent holiday before 30 June ~~2022~~2021 followed by three additional months of substantially equivalent payments at the end of the lease would not constitute a substantive change to other terms and conditions of the lease.

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Covid-19-related rent concessions beyond 30 June 2021

BC205H In March 2021 the Board issued *Covid-19-Related Rent Concessions beyond 30 June 2021* (the 2021 amendment), which extended the availability of the practical expedient in paragraph 46A of IFRS 16 by one year. The 2021 amendment resulted in the practical expedient applying to rent concessions for which any reduction in lease payments affects only payments originally due on or before 30 June 2022, provided the other conditions for applying the practical expedient are met.

BC205I The Board extended the availability of the practical expedient in response to stakeholder feedback about covid-19-related rent concessions being granted at the time of the 2021 amendment. The Board was informed that lessees continue to face challenges accounting for rent concessions, especially in the light of the many other challenges lessees face during the pandemic. Almost all stakeholders—including almost all users of financial statements—that provided feedback on the 2021 amendment supported extending the availability of the practical expedient. Users of financial statements agreed that the ongoing severity of the pandemic had not been envisaged when the Board originally developed the practical expedient in May 2020; they nonetheless highlighted the continued importance of limiting the availability of the practical expedient so that it can be used only when it is needed most. The Board acknowledged that lessees were no longer applying IFRS 16 for the first time, but concluded that, in all other respects, extending the scope of the practical expedient would be consistent with the Board's objectives when it originally developed the practical expedient in May 2020 (see paragraph BC205B).

BC205J The Board amended only the date within the condition in paragraph 46B(b)—it introduced neither a new practical expedient nor a new option to apply (or not apply) the practical expedient. In response to stakeholder feedback, the Board decided to highlight—in paragraph C20BC of IFRS 16—the relevance of paragraph 2 of IFRS 16 when first applying the 2021 amendment. Applying paragraph 2, a lessee that had already applied the practical expedient in paragraph 46A would be required to apply the extended scope of the practical expedient to eligible contracts with similar characteristics and in similar

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circumstances. Similarly, the 2021 amendment did not allow a lessee to elect to apply the practical expedient if the lessee did not apply the practical expedient to eligible rent concessions with similar characteristics and in similar circumstances, including those that reduce only lease payments due on or before 30 June 2021. At the time the Board issued the 2021 amendment, a lessee may not have established an accounting policy on applying (or not applying) the practical expedient to eligible rent concessions. Such a lessee could still decide to apply the practical expedient, however that lessee would be required to do so retrospectively and to apply it consistently to contracts with similar characteristics and in similar circumstances.

Dissenting opinion

Dissent of Nick Anderson and Zachary Gast from *Covid-19-Related Rent Concessions beyond 30 June 2021*

DO1 Messrs Anderson and Gast voted against the publication of *Covid-19-Related Rent Concessions beyond 30 June 2021*. They are concerned that an extension to the period during which the practical expedient is available will further impede comparability between lessees that apply the practical expedient and those that do not. They note that support from users of financial statements for *Covid-19-Related Rent Concessions* (the 2020 amendment) was predicated on limiting the practical expedient to a specific time frame that the amendment will extend by 12 months. They also note that one key reason the Board developed the 2020 amendment was because, at that time, lessees were applying IFRS 16 for the first time and that this is no longer the case.